

## **Introduction to Oversight and Monitoring Tool**

Enactment of the Accountability of Tax Dollars Act of 2002 (PL 107-289) extended to many additional agencies the requirement to prepare and submit to the Congress and the Director of the Office of Management and Budget (OMB) an audited financial statement for the preceding fiscal year, beginning with the fiscal year (FY) 2002 cycle. In recent years, an increasing number of Offices of Inspector General (OIG) already covered by the Chief Financial Officer (CFO) Act, as amended by the Government Management and Reform Act of 1994, have opted to outsource the annual financial statement audits. As a result, the Financial Statement Audit Network (FSAN) of the Federal Audit Executive Committee formed a work group to (1) foster communication on monitoring and oversight procedures of contracted Federal financial statement audits, and (2) develop a monitoring and oversight tool incorporating best practices and lessons learned. This tool should be useful both to those OIGs familiar with and new to oversight of financial statement audits.

The U. S. Government Accountability Office (GAO) and the President's Council for Integrity and Efficiency (PCIE) adopted a joint GAO/PCIE Financial Audit Manual (FAM) as guidance for the member agencies' to conduct financial statement audits. FAM Chapter 650, *Using the Work of Others*, (FAM 650) provides guidance on designing and performing appropriate oversight and other procedures when using the work of other auditors, including contracting for the entire audit. Furthermore, the PCIE Appendix G, *Checklist for Peer Review of OIG Monitoring of Financial Statement Audits Performed by an Independent Public Accountant* cites FAM 650 as the guidance for determining the extent of review and maintenance of supporting documents by the OIG for determining the contractor's compliance with *Government Auditing Standards*. The FSAN oversight and monitoring tool is based on the FAM guidance and OIGs should be familiar with the requirements of FAM 650 prior to utilizing this tool.

Our intent is to assist OIGs by distilling the guidance of FAM 650 and the experiences of other OIGs into a general plan and program that could be utilized at any agency to fulfill their responsibilities for contracted financial statement audits under the CFO and IG Acts. This tool is intended to facilitate the oversight efforts of OIGs and is not intended to create new standards or requirements, or to add to FAM 650. This tool is not authoritative; it is guidance for your consideration. OIG personnel must exercise professional judgment in determining the nature, timing and extent of the actual procedures to be performed that will ensure that the proper level of oversight of the audits is obtained. The OIGs may also want to augment these procedures for requirements and situations specific to their OIG and agency.

This tool is organized to provide (1) background on the key elements and decision points of FAM 650 and (2) a sample program for documenting the oversight procedures planned. The program will need to be modified depending on the planned type of reporting and level of review required or desired. The thought process generated by this tool will facilitate preparation of a planning memorandum or similar document for the oversight process.

The detailed monitoring program has been divided into the following sections:

- Section I – Evaluating the IPA. This section covers evaluating the independence, objectivity and qualifications of the IPA.
- Section II – Monitoring the Work. This section covers the work to be performed to monitor the work at each audit during the planning, internal control, testing and reporting phases.
- Section III – OIG internal procedures. OIG procedures not directly related to oversight.
- Review guides/checklists for the following areas:
  - Planning Phase Checklist
  - Internal Control Phase Checklist (complete for each significant area/cycle)
  - Testing Phase Checklist (complete for each significant area/cycle)

Some of the review guides/checklists inquire about areas not covered by a low level of review envisioned by FAM 650. The OIG will have to consider whether it is appropriate to utilize the guides if most of the answers will be “N/A.” It may be more appropriate to review contractor quality control checklists and memorandum. Where the level of review is high OIGs should consider developing more detailed procedures particular to their entity.

***General Plan and Oversight Program for Financial Statement Audits***

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## Considerations in Determining Appropriate Oversight and Monitoring Procedures

### General Background:

Oversight of the IPA shall be performed in accordance with GAO/PCIE FAM, Section 650, Using the Work of Others. FAM 650 provides guidance in making judgments necessary to use the work of others. These judgments include:

1. Type of Reporting
2. Evaluation of the IPA's independence and objectivity
3. Evaluation of the IPA's qualifications
4. Determination of the level of review
5. Review of Documentation

### Type of Reporting

There are various types of reporting when using the work of other auditors. FAM 650.09-.10 provides guidance to consider when determining the reporting type. The type of reporting depends on the degree of responsibility the OIG accepts and the work performed by the IPA.

The following chart depicts the various types of reporting along with the required level of review.

OIG Not Principal Auditor	Level of Review	Comments
<b>Auditor Transmittal Letter</b> (FAM 650.09 b)		An auditor transmittal will generally be used when the IG has contracted out the entire audit to an IPA. May not be appropriate for a component audit where the IG is the principal auditor at the agency level.
<ul style="list-style-type: none"><li>Expressing No Assurance on IPA's work</li></ul>	Low or none <sup>1</sup>	
<ul style="list-style-type: none"><li>Expressing Negative Assurance on IPA's work</li></ul>	Moderate or low	
Auditor issues a report that expresses concurrence with the IPA's report and conclusions	High, moderate, or low	May be appropriate when reporting on a component level when the OIG is the principal auditor at the

<sup>1</sup> Because the auditor will generally still have responsibility to monitor the performance of the contract and meet the requirements of the IG Act, as amended, and the CFO Act a level of review of none will generally not be appropriate.

		agency level
<b>OIG is Principal Auditor</b>		
Auditor issues a report that refers to the IPA's report and indicates a division of responsibility <sup>2</sup> (FAM 650.09 c)	Low or none	May not be appropriate where a very substantial portion of the work was not performed by the principal auditor (OIG).
Auditor issues a report that does not refer to the IPA's work (FAM 650.09 e)	High, moderate, or low	The auditor takes responsibility for the IPA's work.

### **Evaluation of the IPA's independence and objectivity**

Unless the OIG has no association with the report, you should evaluate the IPA's independence and objectivity. FAM 650.11-.24 provides guidance in this area. We have included an audit checklist for evaluating the IPA's independence in Section I.

### **Evaluation of the IPA's qualifications**

After evaluating the IPA's independence, you should evaluate the IPA's qualifications to perform the audit. This includes evaluating the qualifications of the organization as well as the specific skills of the audit team. FAM 650.25-.35 provides guidance in this area. We have included an audit checklist for evaluating the IPA's qualifications in Section I.

### **Determination of the level of review**

After evaluating the IPA's independence, objectivity and qualifications, you should develop and document the plan for reviewing and testing the IPA's work performed. This plan should document the level of review deemed necessary. There are three levels of review: high, moderate and low. In determining the level of review the auditor should consider the following factors:

<b>Factor</b>	<b>Discussion</b>
1. Type of Report or letter to be issued (650.36 a)	The primary consideration in determining the level of review. See FAM 650.10 for the level of review appropriate for each type of report.
2. IPA's independence, objectivity and integrity (650.36 d)	Level of review increases as independence, objectivity and integrity decreases.
3. IPA's qualifications to perform the	Level of review increases as qualifications

<sup>2</sup> The auditor should document the basis for the decision.

work (650.36 e)	decrease.
4. Prior experience with the IPA's (650.36 f)	Level of review decreases as the auditor has favorable experience in working with the other auditor
5. Disclaimer of opinion due to a scope limitation (650.36 b and c)	Usually low level of review required to determine that the disclaimer was appropriate.
6. Materiality of the line item in relationship to the financial statements the IPA's is reporting on (650.36 g)	Level of review increases as the materiality of the line item increases. This is more of a consideration where the IPA is functioning as the principal auditor and less of a consideration where a transmittal letter will be issued.
7. The combined risk (inherent and control risk) and the risk of material fraud for the financial statement line item (650.36 h). Consider prior year findings and the complexity of accounting.	Level of review increases as the combined risk and the risk of material fraud increases.

FAM 650.36-.41 provides guidance in this area. The chart under the Type of Reporting section, list the level of review acceptable for each report type.

### Review of Documentation

The extent of the review of the IPA's work performed depends on the level of review.

The following documentation or equivalent will be reviewed. Items to be reviewed and retained at the low level are indicated by regular font. The moderate level of review includes the low level items plus those in **bold letters**. The high level of review includes the moderate level plus those in **BOLD CAPITALS**.

At the entity level:

- **entity profile** (optional retain)
- general risk analysis (optional retain)
- audit plan
- **determination of planning and design materiality**
- **account risk analysis**
- analytical procedures (optional retain)
- **information systems background**
- **general and application controls documentation**

- IPA's report and management's response
- final indexed financial statements, notes and other accompanying information
- summary of unadjusted misstatements, the IPAs' estimate of the imprecision of audit procedures, and comparison with materiality
- audit summary memorandum
- CFO Act Checklist (FAM 1050) (optional retain)
- the FAM 1003 Audit Completion Checklist or equivalent
- management and legal representation letters (optional retain)
- **attend key entrance and exit conferences**
- **COORDINATE/CONCUR IN SIGNIFICANT PLANNING DECISIONS BEFORE MAJOR WORK IS STARTED**

At the line item or cycle level for significant line items:

- audit program
- conclusions about significant issues and their resolution
- **determination of test materiality**
- **account risk analysis (ARA)** (optional retain)
- workpapers supporting audit findings (summary workpapers and detailed workpapers to the extent needed)
- **summary memo or other workpapers evidencing significant judgments and conclusions**
- **sampling plans**
- **lead sheets** (optional retain)
- **specific control evaluations or equivalent** (optional retain)
- **cycle memos and flowcharts**
- **analytical procedures**
- **summary of possible adjustments**
- **SUPPLEMENTAL TEST DOCUMENTATION**

## OIG Staff Qualifications

The OIG staff working on financial statement oversight is expected to be familiar with *Government Auditing Standards*, AICPA U. S. Auditing Standards, and the GAO/PCIE *Financial Audit Manual*. Staff should also be familiar with FASAB standards and OMB guidance related to financial statements and financial audits. In addition, staff should have knowledge of developments affecting the financial audits in the component(s) for which they have responsibility.



## Detailed Oversight and Monitoring Procedures

### Section I – Evaluating the Independence, Objectivity and Qualifications of the IPA

This section assumes that the contract is in the second year or later and that the other auditor is a public accounting firm. Replace with section Ia if in the first year of a contract. Make appropriate modifications if using work of a government auditor.

#### Detailed Steps

Step		Done by/Date	W/P Ref. Explanation
<b>Overall Objective:</b> Determine whether the IPA is independent, objective and qualified.			
<b>Evaluating the Independence, Objectivity, and Qualifications of the IPA</b>			
<b>Independence and objectivity</b>			
<b>Objective:</b> Assess whether the firm and the individual auditors are free from external and personal impairments and maintains an independent attitude and appearance. (references: FAM 650.11, GAGAS 3.03)			
1.	Obtain an updated representation from the firm as to its independence and objectivity. Determine whether personnel have met the CPE requirements.		
2.	Determine what, if any, non-audit services have been provided by the firm, during the last several years, to the agency and evaluate their effect on the firm's independence		
3.	Inform the IPA that the OIG should be notified of any proposed non-audit services to be provided after the start of the audit. Evaluate the potential effect of these non-audit services on the firm's independence.		
<b>Qualifications</b>			
<b>Objective:</b> Determine whether the firm and each audit team are qualified to perform the audits.			
4.	Review the overall qualifications of the team performing the work. Review resumes and consider for key team members (partners, managers, and lead seniors) their educational		

<b>Step</b>		<b>Done by/Date</b>	<b>W/P Ref. Explanation</b>
	level, professional certifications, and professional experience.		
5.	Obtain and review the latest peer review report, letters of comments, and response to the peer review report.		
6.	If the peer review report is more than one year old determine if there have been any significant changes to the quality control procedures and review documentation, interview staff members and test functional areas.		
7.	If the peer review is qualified or adverse, evaluate whether the quality control system has since been strengthened to allow the use of the IPA's work.		
8.	Communicate orally or in writing with the IPA to be satisfied they understand the audit requirements, timetable, and the type of report or letter the OIG will issue.		
9.	Prepare a memorandum documenting the results of the work performed in regard to the IPA's independence, objectivity, and qualifications.		

## Section II – Monitoring the Work of the IPA

**Detailed Steps** (detailed steps to be performed for a moderate level of review are indicated in **bold**, steps to be performed at a **HIGH** level are in **BOLD CAPITAL**)

Step	Done by/Date	W/P Ref. Explanation
<b>Monitoring the Work of the IPA Firm</b>		
<b>Overall Objective:</b> Assess <sup>3</sup> whether the work was performed in accordance with generally accepted government auditing standards. These include (GAGAS 4.03): <b>(a)</b> Whether the work was properly planned and supervised. <b>(b)</b> Whether a sufficient understanding of internal control was obtained to plan the audit and determine the nature, timing and extent of tests to be performed. <b>(c)</b> Whether sufficient competent evidential matter was obtained to afford a reasonable basis for the opinion.		

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<sup>3</sup> Here and elsewhere in the oversight program the use of the word determine or assess is not meant to imply that the OIG concurs with the IPA's conclusions or has performed sufficient work to concur with the IPA's conclusions.

Step		Done by/Date	W/P Ref. Explanation
<b>Monitor the planning of the audit</b>			
<p><b>Objective:</b> Assess whether the audit has been planned in accordance with generally accepted government auditing standards (See FAM 200). During the planning phase, the IPA determines an effective and efficient way to obtain the evidential matter necessary to report on an entity's financial statements.</p> <p>The planning phase includes:</p> <ul style="list-style-type: none"> <li>• Understanding of the entity's operations;</li> <li>• Determining the planning, design and test materiality;</li> <li>• Identifying significant line items accounts, assertions and RSSI<sup>4</sup>;</li> <li>• Identifying significant cycles, accounting applications and financial management systems;</li> <li>• Identifying significant provisions of laws and regulations;</li> <li>• Identifying relevant budget restrictions;</li> <li>• Identifying risk factors;</li> <li>• Determining the likelihood of effective information system controls;</li> <li>• Identifying relevant operations controls to evaluate and test;</li> <li>• Performing a preliminary risk assessment to identify high risk areas (including risk of fraud); and;</li> <li>• Planning entity field locations to visit.</li> </ul> <p>(Reference: FAM 100.03)</p>			
1.	Attend the entrance conference and key meetings. (Note: in general a writeup will not be needed unless significant items are discussed which are not included in the IPA agenda or other writeups).		

<sup>4</sup> The auditor is not required to opine on RSSI, but, per OMB guidance, internal control over RSSI should be tested the same as internal control over the financial statements.

Step		Done by/Date	W/P Ref. Explanation
2.	<b>PARTICIPATE IN KEY PLANNING MEETINGS AND CONCUR IN KEY PLANNING DECISIONS</b>		
3.	<p>Obtain and review planning phase documents (retain copies for workpapers):</p> <ul style="list-style-type: none"> <li>a. Entity Profile or equivalent (FAM 220)</li> <li>b. General Risk Analysis (GRA) or equivalent document (and audit plan if prepared as a separate document) (FAM 290)</li> <li>c. Determination of planning and design materiality (FAM 230)</li> <li><b>d. Planning phase account risk analysis (ARA) and cycle matrix or equivalent (FAM 235)</b></li> <li>e. Preliminary Analytical procedures (FAM 225)</li> </ul>		
4.	Complete the planning phase checklist. The planning phase checklist provides a summary of what should be covered in the planning phase and the planning phase documentation.		
5.	<p>Review the IPA's procedures for assessing fraud risk (FAM 260). A summary of procedures that the IPA should follow is listed below:</p> <p><b>Identify Fraud Risk Factors</b></p> <ul style="list-style-type: none"> <li>• Hold a "brain storming" meeting(s) about fraud risk (FAM 260.27 to 29)</li> <li>• Make inquiries of management about fraud (See FAM 260.30 for areas of inquiry)</li> <li>• Inquire of others (Office of Inspector General, audit committee or equivalent, internal auditors, other personnel) (See FAM 260.31)</li> <li>• Review the agency's plans to identify improper payments and reports on improper payments (FAM 260.32 a)</li> <li>• Determine whether the preliminary</li> </ul>		

Step		Done by/Date	W/P Ref. Explanation
	<p>analytical procedures identified any unexpected or unusual relationships that might indicate fraud risk (FAM 260.32 b)</p> <ul style="list-style-type: none"> <li>Consider whether fraud risk factors are present (FAM 260.32 c)</li> </ul> <p><b>Assessment of Fraud Risk Factors</b></p> <ul style="list-style-type: none"> <li>Evaluate the information obtained in light of the three conditions that are generally present when fraud occurs: incentive/pressure, opportunity, and attitude/rationalization (FAM 260.33 a)</li> <li>Evaluate fraud risk factors for revenue recognition where revenue is material. If revenue recognition is not considered a fraud risk, then document the basis for the conclusion. (FAM 260.33 b)</li> <li>Evaluate the possibility that management could override controls even if specific fraud risk factors have not been identified (FAM 260.33 c)</li> <li>For each identified fraud risk factor, determine whether it relates to (1) specific transactions and balances or classes of transactions and related assertions or (2) to the financial statements as a whole.</li> <li>As part of understanding internal control sufficient to plan the audit, (1) evaluate whether programs and controls that address identified fraud risks have been suitably designed and placed in operations and (2) determine whether these programs and controls mitigate these risks or whether specific control deficiencies exacerbate these risks.</li> <li>Assess the identified fraud risk, including the type of misstatements, the</li> </ul>		

Step		Done by/Date	W/P Ref. Explanation
	<p>significance of the risk, and the likelihood that it could result in a material misstatement</p> <p><b>Response to Assessed Fraud Risks</b></p> <ul style="list-style-type: none"> <li>• Determine whether the response had an overall effect on the conduct of the audit and considered (1) the assignment of personnel and supervision, (2) review of accounting principles, and (3) unpredictability of audit procedures (FAM 260.37 and .39 a,b,c)</li> <li>• Determine whether the response addressed fraud risks that relate to management's override of controls such as (1) examination of journal entries and other adjustments (2) review of accounting estimates and (3) evaluation of business rationale for significant unusual transactions (FAM 260.37 and .40 a,b,c)</li> <li>• Determine that for any of these risks that relate to specific financial statement account balances or classes of transactions and related assertions, involved the nature, timing and extent of audit procedures (FAM 260.37 and .41 a,b,c)</li> </ul>		
6.	Prepare a memorandum <sup>5</sup> summarizing the results of planning phase monitoring.		

<sup>5</sup>The summary memorandum for each section should cover the work performed (e.g., the documents reviewed), the results of the review, and a conclusion as to whether any instance of material non-compliance with generally accepted government auditing standards were identified.

<b>Monitor the Performance of the Audit</b>			
General			
7.	<p>Keep apprised of the status of the audit by:</p> <ul style="list-style-type: none"> <li>• Attending selected status meetings between the IPA and the auditee;</li> <li>• E-mail and telephone communication;</li> <li>• Review of provision of items on the deliverables schedule;</li> <li>• Progress meetings with the IPA (if necessary).</li> </ul>		
8.	<b>DISCUSS KEY ITEMS WITH MANAGEMENT, ESPECIALLY SIGNIFICANT ESTIMATES AND JUDGMENTS.</b>		
<b>Internal Control Phase</b> (initial evaluation and planning):			
<p><b>Objective:</b> Assess whether the auditor has:</p> <ul style="list-style-type: none"> <li>i. Gained and documented an understanding of controls and processes sufficient to plan the audit and determine the nature, timing and extent of testing;</li> <li>ii. Assessed the effectiveness of IS controls;</li> <li>iii. Assessed specific levels of control risks;</li> <li>iv. Identified controls to test and developed appropriate steps to test controls.</li> </ul>			
9.	<p>Note: For a low level of review only the audit program needs to be reviewed. The other documents may be checked for existence but do not need to be reviewed for adequacy.</p> <p>Assess whether the auditor prepared the following documents for all significant audit areas or cycles:</p> <ul style="list-style-type: none"> <li>• <b>Cycle Memos and Flowcharts or the equivalent (See FAM 390.04 for documentation requirements)</b></li> <li>• <b>Account Risk Analysis Forms (or the equivalent) (See FAM 395 I for requirements)</b></li> </ul>		



	<ul style="list-style-type: none"> <li>• <b>Specific Control Evaluations (or the equivalent)</b> (See FAM 395 H for requirements)</li> <li>• <b>Control Risk Matrix</b></li> <li>• Control Testing Audit Programs</li> </ul>		
10	Update the preliminary determination of the level of review to be performed for each major area.		
11	<p>Has the IPA gained and documented an understanding of existence and completeness controls related to performance measures?</p> <ul style="list-style-type: none"> <li>• How the entity determines the performance measures to report, including their relationship to the entity's mission;</li> <li>• The source of the information used in performance measures;</li> <li>• The processing involved from the initial source information to its inclusion in performance measures; and</li> <li>• The process used to prepare the performance measures from the system produced data.</li> </ul> <p>(FAM 320.07)</p>		
12	Has the IPA gained and documented an understanding of internal controls related to required supplemental stewardship information (RSSI) and assessed the level of control risk? (OMB Bulletin 01-02 6 e.)		
13	Has the IPA gained and documented an understanding of internal controls related to budget execution and assessed the level of control risk? Has the IPA gained and documented an understanding of internal controls related to the entity's compliance with laws and regulations (FAM 320.05)		
14	<p><b>For significant line items with a moderate/HIGH level of review, review and retain the following:</b></p> <ul style="list-style-type: none"> <li>• <b>Cycle Memos and Flowcharts or the equivalent</b> (See FAM 390.04 for</li> </ul>		

	<p><b>documentation requirements)</b></p> <ul style="list-style-type: none"> <li>• <b>Account Risk Analysis Forms (or the equivalent) (See FAM 395 I for requirements)</b></li> <li>• <b>Specific Control Evaluations (or the equivalent) (See FAM 395 H for requirements)</b></li> <li>• <b>Control Risk Matrix</b></li> <li>• <b>Control Testing Audit Programs</b></li> </ul>		
15	For significant line items with a low level of review, obtain and review the audit program.		
16	For each significant line item/application complete the internal control phase checklist and conclude whether performed in accordance with GAGAS.		
17	<b>Have an information systems auditor review the information resource management information and the workpapers for review of general and application controls. Obtain from the information systems auditor a summary of the results of their review.</b>		
18	Complete the Internal Control phase checklist.		
19	Prepare a memorandum summarizing the results of the internal control phase monitoring. The summary should cover all significant areas/cycles reviewed, including RSSI, RSI, Performance Measures, budget and compliance with laws and regulations.		

<b>Testing Phase</b>			
<b>Objective:</b> Assess whether the auditor has obtained sufficient competent evidential matter to report on: <ol style="list-style-type: none"> <li>the financial statements (including RSI, RSSI and MD&amp;A);</li> <li>internal control;</li> <li>compliance with the three provisions of FFMIA; and</li> <li>compliance with significant provisions of laws and regulations.</li> </ol>			
20	Update, if necessary, the determination of the line items, applications, and cycles to be reviewed and the level of review. See the Level of Review section of the Oversight plan for preliminary determination.		
21	Determine whether to accompany the IPA on site visits. Accompanying the IPA on site visits will generally not be required for a low level of review, <b>may be necessary for a moderate level of review, AND GENERALLY SHOULD BE PERFORMED FOR A HIGH LEVEL OF REVIEW.</b>		
22	<b>For significant line items with a moderate/HIGH level of review, review the following:</b> <ul style="list-style-type: none"> <li>completed audit program</li> <li>conclusions about significant issues and their resolutions (often in line item/cycle summary memorandum)</li> <li>documentation supporting exceptions/findings [Note: this does not involve obtaining all of the detailed support for a finding but rather the summary of testing performed and the results]</li> <li>sampling plan</li> <li>evaluation of sample results</li> </ul>		

	<ul style="list-style-type: none"> <li>• <b>lead schedules</b></li> <li>• <b>summary of possible adjustments</b></li> <li>• <b>key documentation and documentation evidencing significant judgments and conclusions</b></li> <li>• <b>analytical procedures</b></li> <li>• <b>documentation for high risk accounts, estimates and judgments</b></li> </ul>		
23	<p>For significant line items with a low level of review, obtain and retain the following (at a minimum):</p> <ul style="list-style-type: none"> <li>• completed audit program</li> <li>• conclusions about significant issues and their resolutions (may be found in summary memorandum)</li> <li>• documentation supporting exceptions/findings [Note: this does not involve obtaining all of the detailed support for a finding but rather the summary of testing performed and the results]</li> </ul>		
24	<p>Prepare the testing phase key area checklist for each significant line item/cycle.</p>		
25	<p><b>FOR SIGNIFICANT LINE ITEM ACCOUNTS FOR WHICH THE LEVEL OF REVIEW IS HIGH PERFORM SUPPLEMENTAL TESTS OF ACCOUNTING RECORDS AND/OR PARTICIPATE IN DISCUSSIONS WITH MANAGEMENT PERSONNEL (See FAM 650.43 to .47).</b></p> <ul style="list-style-type: none"> <li>• <b>GENERALLY SHOULD BE PERFORMED WHILE THE IPA IS AT THE AUDITEE LOCATION AND HAVE ACCESS TO THE RECORDS</b></li> <li>• <b>EXAMINE SOME OF THE SAME DOCUMENTS THE IPA EXAMINED OR MAKE OWN SELECTION OR BOTH</b></li> </ul>		

	<ul style="list-style-type: none"> <li>• <b>COMPARE RESULTS OF IPA’S WORK TO RESULTS OF SUPPLEMENTAL TESTS.</b></li> <li>• <b>DOCUMENT SCOPE OF SUPPLEMENTAL TESTING AND CONCLUSIONS REACHED.</b></li> </ul>		
26	Based on materiality, have all major accounts been tested and reviewed? (For 24, 25, and 26, a low level review will not enable reviewer to answer these questions. Theses are moderate at least.)		
27	Did the IPA review and test laws and regulations, and the provisions of contracts and grant agreements, non-compliance with which could have a direct and material effect on the financial statements?		
28	Do the working papers adequately document the extent of work performed and the results of tests of compliance with the Federal Financial Management Improvement Act (FFMIA)?		
29	Prepare a memorandum summarizing the results of the testing phase monitoring. The memorandum should summarize the results of the review for each key area and the overall adequacy of the evidential matter obtained.		

<b>Reporting Phase</b>			
<b>Objective:</b> Assess whether the IPA has adequately: <ul style="list-style-type: none"> <li>a. Summarized the audit results and demonstrated the adequacy of the audit procedures to support the conclusions on the financial statements, internal control, compliance with laws and regulations (including FFMIA), MD&amp;A, RSSI, RSI, and other accompanying information;</li> <li>b. Determined whether the audit has been conducted in accordance with generally accepted government auditing standards and OMB audit guidance; and</li> <li>c. Reported the results of the audit including conclusions on the financial statements, internal control and compliance with laws and regulation.</li> </ul>			
30	Review and retain the audit summary memorandum, conclusions about line items, and summary of possible adjustments. The audit summary memorandum should summarize the results of the audit and demonstrate the adequacy of the procedures performed. Results should be referenced back to detailed workpapers. Question 12 of FAM 1003 Section I has a summary of what should be included in the audit summary memorandum		
31	Review and retain the overall analytical procedures including revenue accounts. (See FAM 520, 540.19, 590, and 1003 Section I question 10)		
32	Review the IPA's determination of compliance with generally accepted government auditing standards by reviewing: <ul style="list-style-type: none"> <li>• The GAO/PCIE Financial Statement Completion Checklist (FAM 1003), and/or</li> <li>• the IPA's audit completion checklist</li> </ul>		

	<p>Consider the answers given with the results of our review, whether the checklists were prepared and reviewed at the appropriate level, and whether a second partner review was performed. Trace a selection of answers back to the referenced workpapers.</p>		
33	<p>Assess whether the IPA has received appropriate management representations. Review whether:</p> <ul style="list-style-type: none"> <li>• The representations indicated in AU 333, FAM 1001, 1001A and OMB 01-02 are contained, if applicable;</li> <li>• Additional representations have been obtained if appropriate;</li> <li>• The management representation letter is appropriately dated;</li> <li>• The management representation letter is signed at the appropriate level;</li> <li>• The management representation letter disclosed the materiality threshold used by management in determining items to be included.</li> </ul>		
34	<p><b>Assess whether the IPA has appropriately reviewed and obtained a legal representation letter and related management summary schedule.</b></p> <ul style="list-style-type: none"> <li>• <b>Does the letter contain appropriate language as suggested by auditing standards and guidelines (AU 337, FAM 1002, OMB Bulletin 01-02)?</b></li> <li>• <b>Does the letter contain an appropriate materiality threshold?</b></li> <li>• <b>Is the letter dated or updated to the date of the auditors' report?</b></li> <li>• <b>Has the IPA compared the amounts reported or disclosed in the financial statements with the management schedule?</b></li> </ul>		

	<ul style="list-style-type: none"> <li>• <b>Has the IPA compared the management schedule with the case summaries in the legal representation letter?</b></li> <li>• <b>Has the IPA performed other procedures (if applicable), such as inquiries with lawyers, where cases were extremely significant, the legal letter contained insufficient or conflicting information as to the probability of unfavorable outcome or the estimated potential loss?</b></li> </ul> <p><b>[Note: The legal representation letter does not need to be retained for the workpapers; however, the summary of the work performed by the IPA should be retained]</b></p>		
35	Did the IPA conduct a review of related party transactions?		
36	Did the IPA conduct a review of subsequent events or transactions that may have occurred after the balance sheet date but before the audit report was issued?		
37	Read the financial statements, the notes, RSSI, RSI, MD&A, and other accompanying information. A comprehensive review of compliance with GAAP and OMB guidance does not need to be performed; however, compliance with GAAP and OMB guidance should be considered and any deficiencies noted compared with those identified by the IPA and communicated to the IPA if not already included.		
38	<p>Review the IPA's review of the annual report for compliance with GAAP and OMB guidance:</p> <ul style="list-style-type: none"> <li>• <b>Has the IPA traced amounts in the financial statements and notes to supporting workpapers? (for a moderate level, trace a selection of items back from the financial statements through lead schedules to supporting workpapers).</b></li> </ul>		



	<ul style="list-style-type: none"> <li>Has the IPA appropriately completed the GAO/PCIE CFO Act Checklist (FAM 1050) (or equivalent) and considered No responses in assessing compliance with GAAP and OMB guidance? (consider checking a selection of responses especially for a <b>moderate</b> level of review or higher).</li> <li>Has the IPA determined if information in the MD&amp;A, RSSI, and RSI is materially consistent with the financial statements?</li> </ul>		
39	<p>Review the summary of unadjusted misstatements.</p> <ul style="list-style-type: none"> <li>Based on review of test work does the summary appear complete?</li> <li>Is the IPA's opinion appropriate given the level of unadjusted misstatements?</li> <li>Has the IPA reassessed the risk of fraud based upon an evaluation of misstatements identified?</li> <li>Has the IPA brought all identified misstatements to the attention of management and encouraged management to correct known misstatements?</li> </ul>		
40	<p>Has the IPA evaluated whether the audit test results indicate the need for a change in the assessment of fraud risks made earlier or the need for additional/different audit procedures?</p> <p>a. Did the IPA consider whether substantive or overall analytical procedures indicate a previously unrecognized fraud risk?</p> <p>b. Did the IPA consider whether responses to inquiries during the audit were vague, implausible, or inconsistent with other evidence?</p> <p>c. Did the IPA consider other evidence gathered during the audit?</p>		
41	<p>Review the draft audit report for compliance with GAGAS and AICPA standards.</p>		

	<ul style="list-style-type: none"> <li>• Complete FAM 1003 Section IV.</li> <li>• Compare findings in the report with those identified in NFRs and the results of testing and followup on any discrepancies.</li> </ul>		
42	Review the final audit report. Update the review of the report for compliance with GAGAS and AICPA standards.		
43	Prepare overall summary memorandum.		
44	Review management letter (if a management letter is prepared).		
45	<b>Attend Exit Conference</b>		

### Section III– OIG Procedures

#### Detailed Steps

**Instructions:** This section is for OIG specific procedures related to the audit. The contents of this section will likely reflect certain policies and procedures of the OIG, the particular interests of your OIG’s management, and situations specific to your agency’s operations. Following are some examples.

Step		Done by/Date	W/P Ref. Explanation
<b>OIG Procedures</b>			
1.	Send a notification letter to Congress informing them of the start of the audit.		
2.	Send a copy of the congressional notification letter and IPA’s engagement letter to the Agency head and CFO.		
3.	Ensure that all OIG personnel working on the audit are independent and collectively possess appropriate qualifications and experience to monitor the conduct of the financial statement audit. Ensure all OIG personnel working on the audit meet the GAGAS continuing profession education requirements		
4.	Facilitate the planning process between the agency and the IPA, with emphasis on early agreement to key milestones.		
5.	Facilitate effective communication by reaching agreement with the agency and IPA regarding mechanisms and timing for communicating preparation and audit issues.		
6.	Ensure administrative requirements are addressed such as IPA work space needs, building access, security clearances, security for audit documentation, and systems access.		
7.	Comply with OIG quality control procedures		

Attachments:

Planning Phase Checklist  
Internal Control Phase Checklist  
Testing Phase Checklist

### Planning Phase Checklist

**Instructions:** This checklist is a tool for evaluating planning phase work. The checklist is largely based on Section questions 1-6 of the FAM 1003 Financial Statement Audit Completion Checklist. Each question should be marked N/A, Yes, or No. The Ref./Comment can be used to provide an explanation or a workpaper reference. The checklist is meant to be an aid to the auditor in considering FAM and other requirements in evaluating the planning phase documents and does not replace the need for auditor judgment.

	N/A	Yes	No	Ref./Comment
1. Do the workpapers document that the audit team has established an understanding with the client as to the objectives of the work, management's responsibilities, auditors' responsibilities, and limitations of the work? (FAM 280)				
2. Do the planning phase workpapers show signs of adequate supervisory review?				
3. Does the entity profile (or equivalent) document an understanding of the entity sufficient to plan the audit? (FAM 290.03) The entity profile should address the following factors: <ul style="list-style-type: none"><li>• Entity's origin, history, and mission;</li><li>• Size and location;</li><li>• Management and organization;</li><li>• External factors;</li><li>• Internal factors;</li><li>• Results of prior audits; and</li><li>• Accounting policies and critical issues.</li></ul>				
4. Do the workpapers contain an adequate general risk analysis or the equivalent? (FAM 290.04)				

	N/A	Yes	No	Ref./Comment
<p>5. Did the audit team adequately perform and document the following planning steps? (FAM 290.04)</p> <p>a. Perform preliminary analytical procedures (FAM 225)</p> <p>b. Determine planning, design, and test materiality (FAM 230)</p> <p>c. Identify significant laws and regulations (FAM 245)</p> <p>d. Identify relevant budget restrictions (FAM 250)</p> <p>e. Understand the budget formulation process (FAM 260.51)</p> <p>(continued on next page)</p>				

	N/A	Yes	No	Ref./Comment
<p>5. (continued)</p> <p>f. Assess inherent risk and the overall effectiveness of the control environment, risk assessment, communication, and monitoring, including whether weaknesses in the control environment, risk assessment, communication, and monitoring preclude the effectiveness of specific control activities (FAM 260)</p> <p>g. Conduct brainstorming meetings (s) obtaining information to identify fraud risk and assess fraud risk.</p> <p>h. Assess the risk of fraud (FAM 260), including</p> <ul style="list-style-type: none"> <li>• specific fraud risks (categorized by type of misstatement and by incentive/pressure, opportunity, and attitude/rationalization) that were identified and the assessment of those risks;</li> <li>• if the auditor did not consider improper revenue recognition to represent a fraud risk, the reasons supporting that conclusion;</li> <li>• consideration of the risk of management override of controls; and</li> <li>• the auditor's response to the assessed fraud risks.</li> </ul> <p>i. Design the audit to achieve an acceptable level of audit assurance that the financial statements are not materially misstated (GAO uses 95 percent) (FAM 260.04)</p> <p>j. Consider the effects of information technology, including service centers (FAM 220, 260.17, 260.41-42, and 270)</p> <p>k. Assess the FMFIA process (FAM 260.43)</p> <p>l. Consider operations controls to be tested (FAM 275)</p> <p>m. Understand performance measures controls (FAM 275)</p>				

	N/A	Yes	No	Ref./Comment
5. (continued)				
k. Assess the FMFIA process (FAM 260.43)				
l. Consider operations controls to be tested (FAM 275)				
m. Understand performance measures controls (FAM 275).				
n. Plan other procedures (representation letters, related party transactions, sensitive payments				
o. Plan procedures to test whether the entity's financial management systems substantially comply with the requirements of FFMIA (FAM 350.20)				
p. Consider staffing requirements				
q. Consider timing of procedures and milestones (FAM 295 D)				
r. Consider assistance from entity personnel				

	N/A	Yes	No	Ref./Comment
6. Does the general risk analysis or the equivalent reflect appropriate consideration of findings and recommendations from previous audits that could affect the current audit objectives? (GAGAS, par. 4.14)				
7. Has the auditor adequately performed and documented the following program steps (usually part of the Account Risk Analysis or equivalent document): <ul style="list-style-type: none"> <li>a. Identified all significant<sup>6</sup> line items, accounts, and related financial statement assertions. (FAM 235.01)</li> <li>b. Identified significant RSSI (FAM 235.01)</li> <li>c. Determined that any accounts not considered significant are not significant in the aggregate (FAM 235.03)</li> <li>d. Identified the significant accounting cycles/applications related to the significant line items and accounts (FAM 240).</li> </ul>				

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<sup>6</sup> See FAM 235.03 and .04 for a discussion of significant. Generally a line item or account is significant if it exceeds design materiality.



### Internal Control Phase Checklist

**Instructions:** This checklist is a tool for evaluating internal control phase planning work. A checklist should be completed for each significant cycle/application. Each question should be marked N/A, Yes, or No. Items in **bold** do not need to be completed for a low level of review. The Ref/Comment can be used to provide an explanation or a workpaper reference. The objective of the checklist is to aid in determining the adequacy of the work performed in each cycle/area. It is meant as an aid to the reviewer in making judgments on the adequacy of the work performed but is not a substitute for the reviewer's professional judgment.

	N/A	Yes	No	Ref./Comment
1. Do the internal control phase workpapers show signs of adequate supervisory review?				
2. Does the audit program for the cycle, line item or account include:  a. Performing sufficient tests to support a low level of control risk for those internal controls that have been properly designed and placed in operation.  b. Tests of controls appropriate to support the planned level of reliance on internal control for each significant assertion?  c. Appropriate substantive tests based upon the preliminary assessment of control risk?  d. Tests of budget controls, if applicable?  e Tests of compliance controls, if applicable?   Note: The detail in which the program will be reviewed will depend upon the level of review.				

	N/A	Yes	No	Ref./Comment
<p><b>3. Does the cycle memorandum or equivalent:</b></p> <p><b>a. Identify the cycle transactions, each significant accounting application, and each significant financial management system included in the cycle,</b></p> <p><b>b. Describe interfaces with other cycles.</b></p> <p><b>c. Identify financial statement line items and general ledger accounts included in the cycle or reference to the audit documentation where such accounts or entries are described.</b></p> <p><b>d. Describe the operating policies and procedures related to the cycle.</b></p> <p><b>e. Identify major internal controls</b></p>				

	N/A	Yes	No	Ref./Comment
<p><b>4. Does the specific control evaluation (SCE), or equivalent:</b></p> <p><b>a. Identify financial reporting controls for each significant assertion in each significant line item or account, including RSSI and the statements of budgetary resources and Financing? (FAM 330.02)</b></p> <p><b>b. Identify relevant budget controls? (FAM 330.09)</b></p> <p><b>c. Identify compliance controls, if relevant? (FAM 330.10)</b></p> <p><b>d. Identify operations controls, if applicable? (FAM 330.11)</b></p> <p><b>e. Document the control activities selected for testing? (FAM 395 H)</b></p> <p><b>f. Identify the IS related controls? (FAM 350.10)</b></p> <p><b>g. Evaluate whether controls are likely to achieve the control objective. (FAM 340.02)</b></p>				
<p><b>5. Does the Account Risk Analysis (ARA), or equivalent:</b></p> <p><b>a. Evaluate and document preliminary control risk for each significant assertion in each significant line item or account? (FAM 370)</b></p> <p><b>b. Evaluate combined risk for each significant assertion in each significant line item or account? (FAM 370.09)</b></p>				

## Testing Phase Checklist

Complete the Testing Phase Checklist for each significant area/cycle. Items in bold should be performed for a **Moderate** level of review, but are not required for a low level of review. The objective of the checklist is to aid in determining the adequacy of the work performed in each cycle/area. It is meant as an aid to the reviewer in making judgments on the adequacy of the work performed but is not a substitute for the reviewer's professional judgment.

	N/A	Yes	No	W/P
<p>1. Did the audit team prepare the following documentation summarizing considerations in planning and performing the work in the key audit areas and cycles?</p> <p>a. <b>Cycle Matrix or an equivalent (or documentation in Account Risk Analysis or an equivalent) showing links between accounts, cycles, applications and line items (FAM 290.05)</b></p> <p>b. <b>Account Risk Analysis or an equivalent (FAM 290.06)</b></p> <p>c. <b>Cycle Memorandum and/or flowchart or equivalents (FAM 390.04-.05)</b></p> <p>d. <b>Specific Control Evaluation or an equivalent (FAM 390.06)</b></p> <p>e. Written audit program (AU 311.05)</p> <p><b>Note:</b> Can refer back to Internal Control Phase review. Where the level of review is low the items in bold do not need to be reviewed but should determine if they have been completed.</p>				
<p>2. If conditions changed during the course of the audit, was the audit program modified as appropriate in the circumstances? (AU 311.05)</p>	_____	_____	_____	_____

	N/A	Yes	No	W/P
<p><b>3. When the audit team performed sampling, did it properly determine and document the following?</b></p> <ul style="list-style-type: none"> <li><b>a. The method used in relation to test objectives</b></li> <li><b>b. Sample size and the method of determining sample size</b></li> <li><b>c. Tests performed</b></li> <li><b>d. Results (misstatements and deviations found)</b></li> <li><b>e. Evaluation (including projection to the population)</b></li> <li><b>f. Conclusion (FAM 490.07)</b></li> </ul>				
<p><b>4. When the audit team performed substantive analytical procedures, did it properly document the following?</b></p> <ul style="list-style-type: none"> <li><b>a. Expectations and the method used to develop them</b></li> <li><b>b. Data sources/reliability</b></li> <li><b>c. Limit/criteria</b></li> <li><b>d. Client explanations for fluctuations, sources of explanations and corroborating evidence</b></li> <li><b>e. Additional steps needed</b></li> <li><b>f. Conclusions (FAM 490.07)</b></li> </ul>				

	N/A	Yes	No	W/P
5. When the audit team performed interim testing, did it do the following?				
a. Test the rollforward period	___	___	___	___
b. Properly document:				
a. The basis for using interim testing	___	___	___	___
b. The procedures performed	___	___	___	___
c. The effects of any misstatements found (FAM 495C.06)	___	___	___	___
6. Did the audit team evaluate the reasonableness of significant accounting estimates made by management? (AU 342)	___	___	___	___
7. Were known and likely misstatements identified in the testing of the key area carried forward to the summary of possible adjustments? (FAM 540.04)	___	___	___	___
8. <b>Did an information systems auditor review the specific control evaluation to evaluate the audit team's decision on which controls are computer-related (including controls relating to service-center-produced records)? (FAM 350.10)</b>	___	___	___	___

	N/A	Yes	No	W/P
9. Review the audit program and determine if:				
a. All steps were either performed or reasons for not performing provided?				
b. Audit steps were cross-indexed to the workpapers? <b>Trace selected steps back to supporting workpapers to verify cross-indexing</b>				
c. Adequate steps were included to support the reliance placed on internal controls?				
d. Appropriate substantive tests were included based on combined risk?				
10. <b>Financial statement amounts can be traced to lead schedules?</b>				
11. <b>Key financial statement amounts from lead schedules agree with supporting documentation? (Perform for a selection of items)</b>				
12. Is there evidence of supervisory review of audit workpapers, including partner level review of key workpapers?				
13. Did the auditor review and complete the appropriate portions of the GAO/PCIE CFO Act Checklist? [Note: review for questions relevant to area under review, such as questions 7-22 under Balance Sheet for Fund Balance with Treasury]				